



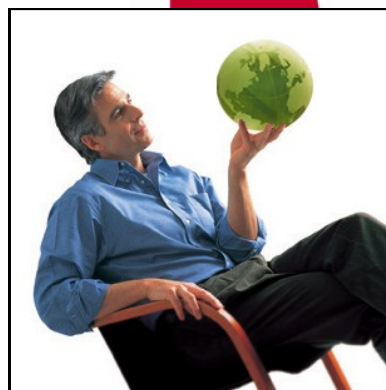
Agriculture and
Agri-Food Canada

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Agroalimentaire Canada

**International
Markets
Bureau**

MARKET ANALYSIS REPORT | JUNE 2011

Packaged Food in Vietnam





► EXECUTIVE SUMMARY

Packaged food in Vietnam continued to develop in 2010 due to a continuous economic recovery, the signs of which included higher Gross Domestic Product (GDP) growth. Consumers' spending confidence returned, which, combined with growing personal incomes and rapid urbanization, drove up the sales value of necessities such as sauces, noodles and condiments as well as indulgence and premium segments such as confectionery, ice cream, and sweet savoury snacks. In addition, the increasing prevalence of modern lifestyles and Western-influenced culture created huge potential for non-traditional food such as cheese, pasta and ready meals.

Vietnamese consumers are also becoming more aware of the food and ingredients that they eat. Negative experiences from a series of recent food quality and safety incidents have made consumers more alert about the nutritional content of food products. As a result, products containing additional vitamins, Omega-3, iodine, or pre/pro-biotics have all become more popular, leading to further launches of new healthy products in all segments.

Although local companies dominate some food segments such as sauces, dressings and condiments, dairy, and snacks, foreign players are increasing their visibility in the Vietnamese market. Combined with growing consumption power, this makes packaged food a very competitive environment. As a result, both local and international manufacturers are investing in new product development and quality management, as well as strengthening their marketing activities to attract consumers and increase sales.

The development of the packaged food market emphasized the necessity of an efficient distribution network. This has become a key factor in companies' success by increasing the market coverage of the product, making it more accessible to consumers and raising brand awareness. Companies are increasingly focusing on modern channels such as supermarkets, hypermarkets and convenience shops for product launches or promotional campaigns, especially in urban centres. However, traditional retail channels, such as wet markets and independent grocery stores, are still dominant in suburban and rural areas, due mostly to underdeveloped infrastructure and limited consumer demand.

According to Euromonitor, packaged food sales are expected to continue to grow over the period of 2011-2016. Although some market segments such as rice and sauces, dressings and condiments may reach their maturity soon, an improved economic outlook will boost other areas such as dairy, baby food and confectionery. Convenience and indulgence food products will see a strong growth and will enhance the whole industry's performance. At the same time, the process of urbanization will continue to support market expansion which will increase market coverage, and create more opportunities for packaged foods.

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Source: CIA World Factbook



► COUNTRY OVERVIEW

Vietnam is a densely-populated developing country that in the last 30 years has had to recover from the negative effects of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally-planned economy. The Vietnamese government has reaffirmed its commitment to economic liberalization and international integration, and in the last decade it has started to implement the structural reforms needed to modernize the economy and develop more competitive export-driven industries.

The influence of the communist party remains dominant despite attempts at economic and political reform. Current issues include: alleviating poverty, improving education, improving productivity in industry and agriculture, implementing economic and financial reforms, fighting corruption, and consolidating the country's private sector. Vietnam's main trading partners include China, Japan, Australia, the Association of Southeast Asian Nations (ASEAN) countries, the United States (U.S.) and Western European countries.

Demographics

With an estimated population of more than 86 million, Vietnam is the 13th most populous country in the world. Due to a significant improvement in living standards, Vietnam's population has grown steadily since the 1990s and is expected to increase by one million every year. The country has a young population with about a quarter (25.8%) under 14 years old and more than two thirds (67.9%) between 14 and 65 years old (Euromonitor 2010).

The majority of the population is concentrated in the coastal regions of the country. Only 25% of Vietnam's population is classified as urban and there are only two cities with a population of over one million – Ho Chi Minh (formerly Saigon) and Ha Noi. However, Vietnam is becoming increasingly urbanized. The urban population increased by 14.4% between 2004 and 2009 as compared with 1.5% rural population growth. This trend is projected to continue, and by 2014 it is expected that about 31% of Vietnam's population will be living in an urban centre (Euromonitor, 2010).

The number of households living below the poverty line fell in recent years but began to rise once again as the economy slowed in 2008. The poorest regions continue to be the Northwest (16.4%), the Central Highlands (13.6%), and the Northern Central Coast (12.7%). Ethnic minorities generally have a high incidence of poverty (Euromonitor 2010). Industrial activity and services are concentrated in and around urban centers and, as a result, the urban population is generally more affluent, especially those under 30 years of age, who are oriented towards more modern lifestyles and often influence consumer trends.

Economy

Vietnam joined the World Trade Organization (WTO) in January 2007, following more than a decade-long negotiation process. WTO membership has connected Vietnam with the global market and reinforced the domestic economic reform process. Industry remains the main sector with 41% of economic output, while agriculture has continued to shrink from about 25% in 2000 to about 21% in 2009. Deep poverty has declined significantly and Vietnam is working to create jobs to meet the challenge of a labour force that is rapidly growing.

Economic development is unequally distributed throughout the country. Alone, Ho Chi Minh, Vietnam's largest city, accounts for 17% of national output, 30% of foreign investment and 40% of exports – far in excess of its 9% share of the country's population. The unemployment rate has been stable at around 2% for several years but the number of jobless citizens in the larger cities remains relatively high. Although still a state-controlled economy, the private sector now accounts for more than 60% of Vietnam's GDP. It is estimated that nearly 1.6 million jobs must be generated each year and almost all will have to come from the private sector (Euromonitor 2010).

During the past decade, real GDP growth averaged more than 7% per year (one of the biggest growth rates in the world) but the pace slowed in 2008 and 2009. The global recession has hurt Vietnam's export-oriented economy. The total GDP was US\$256.5 billion in 2009, with a growth rate of 5.3% (Table 1). This slowdown was due to declining exports, a slump in construction and a sharp decline in the property market. In 2009, exports fell nearly 10% year-on-year, causing the government to consider tariff adjustments in order to limit the trade deficit. The government has also used stimulus spending, including a subsidized lending program, to help the economy through the global financial crisis. Domestic investment grew 16% while foreign direct investment fell 70%, a steep reduction after five years of growth. As a result of a weaker economy, current account deficit, and reduced foreign investments, Vietnam's currency, the dong, faced an increased pressure through 2009, prompting the government to devalue it by more than 5% at the end of the year (Euromonitor 2010).



Economy (continued)

Table 1

Economic data about Vietnam (2009)	
Total GDP: US\$ 256.5 billion	Share of Agriculture in GDP: 21.3%
Per Capita GDP: US\$ 2,900	Debt to GDP ratio: 52.4%
GDP real growth rate: 5.3%	Trade balance: 18.02 billion (2008)

Source: Euromonitor 2011, Central Intelligence Agency 2011

Main Industries

Vietnamese agriculture accounts for nearly half the workforce, but its share of economic output in GDP declined in the last two decades from 42% in 1989 to 26% in 1999. In 2009, Vietnamese agriculture contributed 21% to GDP and according to Datamonitor, between 1994 and 2009 the sector grew at an annual rate of 4.1%. The amount of land available for farming is low but recent government policies promote the use of more agriculturally productive land. Major crops include rice, coffee, tea, cotton, cashews, peanuts, pepper, sugarcane and rubber. The country's extensive network of waterways also offers an excellent location for an expansive aquaculture system that supports the country's very large fish and seafood export industry. The pace of growth slowed in 2009 but a modest recovery is expected as farm exports rise mainly due to an improvement in prices during 2010.

Manufacturing accounts for 21.2% of GDP and employs 17.0% of the workforce, while services represent 14.9% of GDP. Despite the economic slowdown, retail sales did not record a significant decrease in 2009. The tourism industry was more affected, with the real value of receipts falling by 8.3% in 2009, while 2010 experienced marginal gains. Vietnam's banking system continues to be stable and relatively profitable but there is still a lack of reliable information. As the structure of the Vietnamese economy is changing with more credit channelled to the private sector, some improvements in the regulatory system will be needed. Public investment is being allocated to infrastructure developments, including roads, ports and power generation facilities (Euromonitor 2010).



Income Levels

Although GDP per capita in Vietnam has increased by more than US\$1,000 since 2008, Vietnam is still considered a developing country. The majority of households have low annual disposable income. However, according to Euromonitor, in 2005, 89.7% of households earned over US\$500, and 68.6% earned over US\$1,000. In 2009, this had increased substantially to 96.6% and 86.7%, respectively.

Due to rapid economic development, the number of middle-income Vietnamese has gradually increased. Economic development and the opening of the market have given Vietnamese citizens numerous opportunities to earn money, and an increasing number have started businesses and become self-employed, reaching a disposable income of more than US\$5,000 per year. In 2009, it was estimated that there were 3.0 million households with a disposable income at this level or above, increasing from 1.1 million in 2005.

However, income distribution remains highly unequal in Vietnam; wealth tends to be concentrated in large metropolitan areas and in a minority of the population. According to Euromonitor, the wealthiest 20% of the population (the majority of which are young) are responsible for 43.3% of total consumption. This small segment of people purchase luxury products, while the majority of the population strive to save more.



▶ VIETNAMESE CONSUMERS

Consumer Profile

Nearly 60% of the Vietnamese population are under 30 years old. This young, dynamic and relatively wealthy segment of the population is driving consumer trends and is attracted to Westernized lifestyles and products (from fashionable clothing and accessories, cosmetics and technology, to processed and packaged foods). These consumers prefer shopping in modern outlets, such as department stores and supermarkets, rather than traditional markets. They are considered to be the most powerful consumers in Vietnam and as economic conditions improve, spending by this group is expected to increase rapidly in coming years.

Household size in Vietnam has been getting smaller for years, as traditional four-generation families are increasingly rare due to more independent younger generations. The most common household size in Vietnam is now around four people, partly as a result of government family planning programs which have reduced families to one or two children. It was estimated that there were 6.2 million households of four members in 2009, an increase of 10.5% from 2005. This shrinking household size is expected to remain a common dynamic in Vietnam and is affecting consumption patterns, increasing, for example, purchases of packaged food, which offers a quick and easy meal solution for smaller households.

Eating Habits

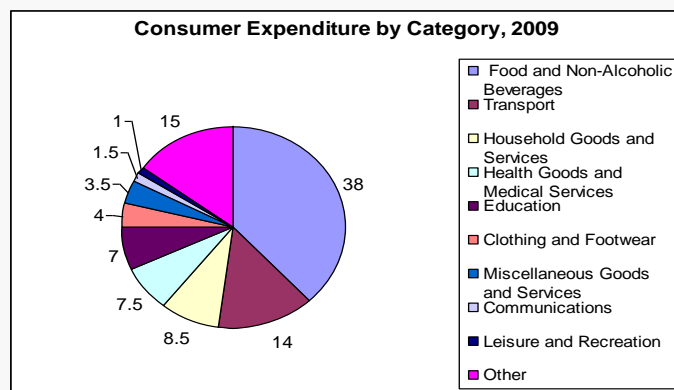
Traditional Vietnamese cuisine is based on fresh ingredients and consumers still prefer fresh foods to processed or packaged ones. An estimated 90% of housewives go to the market every day (Euromonitor 2010). Agricultural and fisheries sectors offer an abundant supply of fresh foods such as vegetables, meat and seafood (generally served stir-fried or steamed, with rice), that is generally much cheaper than processed and packaged versions. As a result, fresh food will continue to be preferred by the majority of Vietnamese for the foreseeable future.

However, Vietnamese consumers, especially those in urban areas, are gradually shifting away from buying fresh food, and towards buying packaged food in supermarkets and convenience stores. With more consumers, particularly younger ones, having less time to cook, the packaged food industry has developed considerably in the last few years.

Consumer Expenditure on Food

In Vietnam, food expenditure makes up a sizable portion of total consumer expenditure. In 2009, expenditure on food and non-alcoholic beverages totalled US\$24.3 billion, which accounted for 38% of total consumer expenditures in Vietnam (Figure 1). By comparison, in 2009, spending on food and beverages accounted for 9% of total spending in Canada, 7% in the United States, and 13% in the E.U. The chart below shows consumer expenditure by category, in 2009, for Vietnam.

Figure 1 Consumer Expenditure by category, 2009 (% of total consumption)



Source: Euromonitor International, 2011

Expenditure on meat, for example, doubled from 2004 to 2009 (Euromonitor 2010). However, as a result of overall higher living standards, spending on groceries as a proportion of total consumer expenditure is likely to decrease, as the Vietnamese shift a greater share of their spending to other lifestyle categories such as transport, telecommunications, health, recreation and leisure goods.

Despite these gains, since the economic recession, almost 80% of the Vietnamese population claim to be spending less, of which 20% are the poorest segment of the population with their combined spending only accounting for 7.2% of the country's consumption (Euromonitor 2010). Although this population's income is expected to increase in the coming years, the uneven distribution of resources will remain, with minorities and isolated regions most affected by poverty.

Vietnam is still a centralized economy and the Government keeps food prices under control in order to protect the population. However, the market for food is expected to continue its healthy and substantial growth. The economic situation is forecast to improve in coming years, gradually leading to higher standards of living and increased consumer expenditure, but prices of goods and services are also expected to increase. Thus, most Vietnamese consumers will become more price sensitive, as salaries will not increase at the same rate as inflation (Euromonitor 2010).

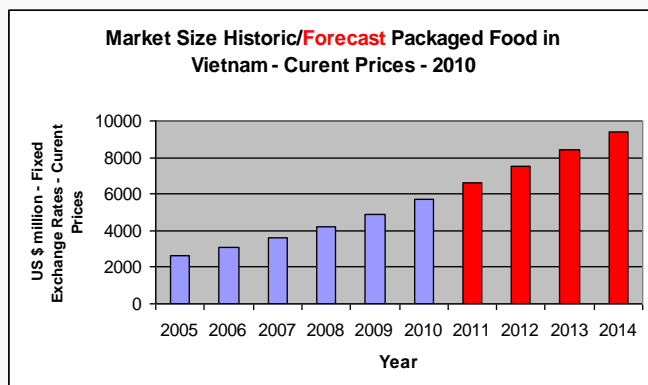
According to Euromonitor, on a per capita basis, expenditure on food in Vietnam more than doubled from \$121.8 in 2004 to \$262.1 in 2009, and is expected to continue increasing over the next few years to reach \$470 in 2014. Increasing disposable incomes have allowed Vietnamese consumers to diversify and improve their diets and spend more on food in general.

► OVERVIEW OF THE PACKAGED FOOD SECTOR



As a result of changing lifestyles and tastes in Vietnam, the packaged food industry has shown strong growth in recent years (Figure 2). In 2009, retail sales in the packaged food industry reached US\$4.9 billion, a 16.5% increase over 2008. In fact, all packaged food categories experienced double digit growth between 2005 and 2009, with chilled and frozen processed foods increasing by 20% year-to-year in the same period. The strong GDP growth rates experienced by Vietnam, which stood at a 16.4% Compound Annual Growth Rate (CAGR) from 2004 to 2009, led to a rapid growth in demand for consumer goods.

Figure 2 Vietnamese Packaged Food Market Size



Source: Euromonitor International, 2011



Source: Shutterstock

Income levels have also increased, especially in urban areas where a new generation of young consumers, with increased spending power and more diverse tastes, has emerged. Growing personal incomes and rapid urbanization drove up sales value of not only necessities such as sauces, dressings and condiments but also of indulgence and premium segments such as confectionery, ice cream, and sweet and savoury snacks. Moreover, the growing proliferation of modern lifestyles and Western-influenced culture opened up huge growth potential for non-traditional food such as cheese, pasta and ready meals, as shown in Table 2.

Table 2: Spending on Packaged Food in Vietnam – by Category

Market Sizes - Historic/Forecast - Retail Value RSP - US\$ mn - Current Prices - Fixed 2010 Exchange Rates									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Packaged Food	3076	3590.8	4207.6	4903.5	5683.4	6621	7512.9	8408.4	9363.6
Baby Food	336.8	406.5	481.5	566.8	664	779.3	890.5	1004.3	1126.2
Bakery	375.7	442.5	527.5	614.3	720.3	848.7	974.4	1101.4	1242
Canned/Preserved Food	28	32.6	38.4	44.8	51.5	58.8	66.2	73.9	82.8
Chilled Processed Food	10.4	12	14.7	17.8	21.8	26.5	31.3	36.5	42.5
Confectionery	154.3	174.6	199.6	223.6	253.7	288.9	323.5	360.4	402.9
Dairy	535.6	607.8	692	810.1	937.9	1102.5	1264.5	1431.8	1604.3
Dried Processed Food	519.1	616.5	728.1	872	1022.8	1191.9	1350.2	1501.3	1654.5
Frozen Processed Food	42.3	51.3	62.9	75.9	91.7	110.4	129	148.8	171
Ice Cream	91.5	105	118.4	131.5	151.8	171.7	188.8	204.9	222.4
Meal Replacement	11.6	12.9	14.9	16.7	18.9	21.4	23.7	26.1	29
Noodles	505.7	600.8	709.5	850.1	996.7	1160.3	1313.1	1458.3	1605.1
Oils and Fats	441.6	524	617.5	714.2	823	958.8	1086.4	1215.4	1356.9
Pasta	6.8	7.8	8.8	9.7	10.9	12.7	14.4	16.1	17.9
Ready Meals	9.6	10.9	12.7	14.9	17.4	20.1	22.7	25.5	28.7
Sauces, Dressings and Condiments	395.4	448.4	528.8	605.6	686.9	784.5	870.5	953.5	1040.1
Snack Bars	-	-	-	-	-	-	-	-	-
Soup	0.9	1	1.2	1.3	1.5	1.7	2	2.2	2.4
Spreads	3.4	4	4.7	5.3	6.1	6.9	7.7	8.5	9.4
Sweet and Savoury Snacks	130.2	152.6	178.5	204.8	232.8	270.7	306.2	341.7	379.7

Source: Euromonitor International, 2011



► PACKAGED FOOD - TRENDS AND DEVELOPMENTS IN THE LAST FIVE YEARS

Due to the opening of the economy and the constant spreading of modern lifestyles and Western-influenced culture in recent years, a number of trends have been observed in the Vietnamese packaged food market.

Environmental Concerns

Environmental concerns have become an important issue among consumers in Vietnam, affecting companies' reputation and sales growth in many industries, including packaged food. In recent years, public media and the government started several campaigns to raise consumers' awareness about serious environmental problems caused by rapid industrialization, and their long-term impacts on the land and the community as a whole. This led to changes in perception and action amongst consumers, manufacturers and governments. Following a number of high-profile public scandals, manufacturers are realizing that the product's price and quality are not the only features important to capturing sales, but that their image and corporate social responsibility are key factors as well.



As consumers are becoming better educated about environmental issues and the impact on their lives, this trend is expected to grow in the future. Manufacturers are expected to incorporate this trend into their business strategies and turn it into a competitive advantage. As marketing activities, particularly advertisements, are being used to boost companies' reputations in terms of protecting and improving the environment, "green" food products are expected to become more popular among consumers in the near future.

Health and Wellness

As the economy continues to improve and disposable incomes grow, consumer can afford better products, and thus start to look more at the nutritional value of the goods they purchase instead of just taste and price. This trend is especially present in the big cities such as Ha Noi and Ho Chi Minh, where people are more affluent and better educated about food nutrition than other areas in the country. Consumers have started to pay more attention to product labelling to learn about their nutritional content, including information on calories, fat and sugar. Products containing fortified nutrients for extra health benefits, such as vitamins, omega-3 or minerals, are also gaining popularity amongst consumers.



Following this trend, some manufacturers have started to add nutritional ingredients into their existing products, or developed new products with enhanced nutritional value. For example, Vietnam Dairy Products VSC (Vinamilk), the leader in yogurt, was the first company to add pre-biotic ingredients in most of its yogurt products in 2007 and 2008, while Acecook Vietnam JSC launched De Nhat cooking oil in 2009, which is fortified with omega-3 and vitamin A (Euromonitor 2010). All these products were advertised for their health benefits and recorded strong sales during their first year on the market.

However, products with additional nutrition are still generally considered more premium than other products. While some consumers are willing to pay the extra money, for the majority of Vietnamese consumers price is still a top considerations when making a purchasing decision.

The Government Promotes Local Products

Recently, in an attempt to promote local products and support local manufacturers in competition with their foreign counterparts, the Vietnamese government initiated a national campaign called "Vietnamese consumers use Vietnamese products." The campaign sought to reach as many consumers as possible, focusing especially on smaller towns and rural areas with less access to packaged food products. The campaign benefited from the participation of numerous outlets, local and foreign chains alike, which tried to capture consumers' attention by promoting local brands. The result of the campaign was an increase in consumption of local products, which accounted for up to 70% of all goods by the end of 2009 in supermarkets and hypermarkets, such as Big C, Fivimart and Hapromart (Euromonitor 2010).



The Government Promotes Local Products (continued)

The campaign was more successful in rural than urban areas, where consumers have a lot more choices from the multinational players. It was also observed that local products tended to perform better in some categories, such as rice and noodles, than others, such as confectionery, snacks, or frozen processed food. At the same time, as the economy recovers and consumer confidence increases, the multinational brands also become more affordable, threatening the local brands, which usually compete on price.

The campaign revealed that Vietnamese consumers generally prefer local brands, or brands with a local image. This prompted foreign manufacturers to use traditional customs to localize their products in order to attract more consumers. One successful example is Knorr stock cubes by Unilever Vietnam International Co. Ltd. The brand always emphasises Vietnamese traditions in its advertising, which is one of the factors contributing to its leading success in stock cubes over many years.

Mergers and Acquisitions are Expanding

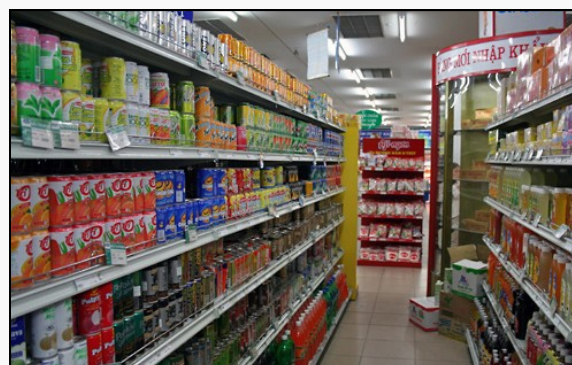
A key trend in the highly competitive environment of packaged food in Vietnam is represented by mergers and acquisitions. Large companies, domestic and multinational alike, view these activities as a quick and efficient way to expand their business. For new foreign companies, acquiring a local company would be the first step to understand the domestic environment. Among the most dynamic companies were Vietnam Dairy Products JSC (Vinamilk), which bought out Lam Son Milk Co. Ltd. in May 2010, and F&N Vietnam Food Co. Ltd. in June 2010; and International Consumer Products Corp (ICP), which acquired Thuan Phat Food Processing & Trading Co., one of the major players in sauces, dressings and condiments in late 2009.

As the packaged food market becomes ever more crowded with many medium and small players, there are more opportunities for merger and acquisition activities. Joint ventures and strategic alliances are also expected to occur in the near future as companies realize the potential when they leverage each other's strengths. Therefore, the packaged food sector is expected to be very dynamic in the coming years. Segments which are more fragmented, such as sauces, dressings and condiments, as well as confectionery and snacks, are expected to see more of these activities taking place. There are also opportunities in the more consolidated segments, when the top players absorb smaller players to increase their market coverage, as in the case of Vinamilk.

The Development of Modern Retailing

Another trend in the Vietnamese packaged food sector is the rise of modern retail channels, such as supermarkets/hypermarkets and food/drink specialist retailers. This is especially visible in big cities, such as Ho Chi Minh, Ha Noi and Da Nang, where the share of sales value from these channels is expected to increase each year. Consumers are coming to prefer them over the traditional channels because of their shopping environment, clear product information in terms of safety and origin, and better customer service. Some products, such as chilled processed food and cheese, are exclusively distributed through supermarkets/hypermarkets or food specialist retailers. Supermarkets/hypermarkets are also the preferred outlets of many manufacturers for on-site promotions and taste tests, due to the large consumer base.

Euromonitor estimates that although traditional retailing will continue to dominate packaged food as a whole, modern retailing will gradually take over traditional retailers' share in the near future. Modern retailing is also expected to spread to suburban areas and newly developed cities and towns, which will increase the availability of packaged food, while allowing better management over the distribution process. However, traditional retailers such as wet market and independent grocery stores will continue to play an important role in the whole market as they are usually a more convenient choice. Thus, manufacturers should pay attention to both modern and traditional retailers in order to ensure a wide-spread distribution network and increased potential for success.



Topmost: Intimex supermarket in Hanoi, Vietnam.
Above: Citimart supermarket in Hanoi, Vietnam.
Source: Planet Retail, 2011



► TRENDS AND DEVELOPMENTS IN PACKAGED FOOD BY SECTOR

According to Euromonitor, packaged food is expected to follow a rising trend, fuelled by increased levels of disposable income, heightened living standards and growing urbanization. However, by 2014, the growth rate is expected to slow down as the market becomes increasingly crowded and reaches maturity. A number of other trends are expected to influence the different sectors of the packaged food market.

Nutrition/Staples Products

Staples and essential products were not significantly affected by the economic situation, as consumers still needed to purchase them regularly. Increasing consumer awareness of health and wellness was also a contributing factor in the growth of nutrition/staples. Furthermore, the demand for products such as drinking milk and yogurt is growing, as more and more consumers become aware of their nutritional benefits. Euromonitor estimates that the nutrition/staples sector will to see a 7% CAGR in constant value terms over the next five years, due to a strong demand for essential products (Table 3).

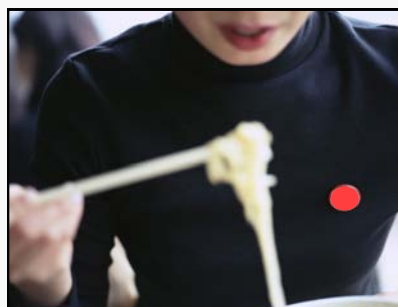
Table 3: Sales of Nutrition/Staples Products by Category: % Value Growth, Historic 2005-2010 and Forecast 2010-2015

Category	2005/10 CAGR	2010/15 CAGR
Bread	15.9	7.6
Breakfast Cereals	17.9	7.8
Dairy	14.5	7.4
Meal Replacement Products	12.5	5.2
Oils and Fats	16.9	6.7
Baby Food	19.2	7.3
Spreads	15.7	4.8
Pasta	12.4	6.5
Noodles	18.5	5.6
Rice	23.3	13.1
Total Nutrition/Staples	17	6.8

Source: Euromonitor, 2011



Due to recent food safety issues, Vietnamese consumers are becoming more aware of the advantages of packaged foods. As a result, traditional staple products, such as packaged rice, are expected to increasingly overtake unpackaged products as consumers perceive them to be more hygienic. The rise of modern retailers is also contributing to the success of packaged staple products. Foods like bread and pasta are gradually becoming popular substitutes to rice and noodles, especially amongst young consumers.



Domestic producers are expected to continue dominating the traditional nutrition/staples categories such as rice, oils and fats, and noodles. Meanwhile, multinational companies will perform better in categories that usually require more processing or nutritional expertise, such as baby food, breakfast cereals, and meal replacement products. Products that are still not regularly consumed by the Vietnamese, such as pasta and cheese, will also be dominated by foreign players.

Traditionally, there is little packaging innovation in nutrition/staples products, as manufacturers focus on maintaining low prices. Private label nutrition/staples products are also underdeveloped. However, with the rise of modern retailing, private labels are expected to perform better in the near future.



Impulse and Indulgence Products

According to Euromonitor, impulse and indulgence products are expected to grow by just over 6% in constant value terms over the next five years, despite consumers' growing interest in health and wellness (Table 4). Increasingly busy and stressful lifestyles, especially in the large cities, is one of the main factors contributing to growth. The development of distribution networks will also contribute to growth, as more and more companies expand their business to suburban and rural areas.

Impulse and indulgence products will continue to be popular among all segments of the population, with sugar confectionery aimed at low-income consumers, while chocolate confectionery more popular with the middle and premium segments. Similarly, multinational companies will target the mid to high-end consumers, while domestic players will concentrate on the low-end segments.

The development of modern retailers will increase the availability of impulse and indulgence products, which will also continue to be sold by traditional retailers, such as wet markets and independent small grocers. At the same time, product development, packaging innovations, as well as private labels and advertising are expected to enhance the visibility and popularity of the impulse and indulgence sector. Savoury biscuits and crackers will continue to be the leading segment due to its healthy image and acquired taste (Euromonitor 2011).

Table 4: Sales of Impulse and Indulgence Products by Category:
% Value Growth Historic 2005-2010 and **Forecast** 2010-2015

Category	<u>2005/10</u> <u>CAGR</u>	<u>2010/15</u> <u>CAGR</u>
Confectionery	13.4	6
Pastries	22.7	7.9
Cakes	14.7	5.5
Biscuits	20.1	8.8
Ice Cream	13.8	4
Sweet and Savoury Snacks	15.8	6.3
Snack Bars	-	-
Impulse and Indulgence Products	15.8	6.5

Source: Euromonitor, 2011

Meal Solutions Products

Euromonitor estimates that the meal solutions sector will grow by a 5% in constant value terms over the next five years (Table 5). Urbanization and increasingly busy lifestyles will be the key factors fuelling demand, as consumers, especially those in big cities, will prefer these products over fresh food, which requires more preparation and cooking time. The development of new products with better taste and more variety is also expected to keep consumers interested.

Chilled and frozen processed foods are set to see the strongest growth, with 11% over the next five years, due to the fact that they are perceived to contain fewer preservatives than canned/preserved food, and are thus safer for consumption. Canned/preserved vegetables, a more mature category, is expected to record a slower growth of 6%, over the same period, as consumers prefer fresh vegetables, which are perceived to have more nutrition and superior taste.

The development of modern retailing will also drive the growth of this sector, as supermarkets and food and drink specialist retailers have large spaces and can afford cold storage facilities to maintain product quality. Some canned/preserved food products that do not require cold storage will continue to be available in traditional retailers such as independent small grocers.

Domestic players will continue to dominate preserved and processed food, as they have the advantage of understanding local tastes and flavour. In contrast, multinational players will dominate in sauces, dressings and condiments, as they have established and trusted brand names. Product development and private labels are also expected to increase as the market becomes more competitive (Euromonitor 2011).





Table 5: Sales of Meal Solutions Products by Category: % Value Growth Historic 2005-2010 and Forecast 2010-2015

Category	2005/10 CAGR	2010/15 CAGR
Ready Meals	15.4	6.9
Canned/Preserved Food	16.4	6.3
Frozen Processed Food	21.1	9.8
Dessert Mixes	-	-
Dinner Mixes	-	-
Chilled Processed Food	19.2	11.1
Sauces, Dressings and Condiments	14.2	4.3
Soup	12.9	6
Meal Solutions	15.1	5.3

Source: Euromonitor, 2011

▶ MARKET STRUCTURE

Main Players

The packaged food market in Vietnam is very fragmented with many small and medium-sized producers. However, a recently noted trend saw mergers and acquisitions rising, which is increasing the concentration of the market. In 2001, the first 20 packaged food producers accounted for less than 35% of the market, while in 2009, their share increased to over 60% (Table 6). Domestic producers are dominating the Vietnamese packaged food market, but international companies are becoming increasingly important.

Table 6: Company Shares by Global Brand Owner

- Retail Value RSP - % breakdown									
	2001	2002	2003	2004	2005	2006	2007	2008	2009
Vietnam Dairy Products JSC (Vinamilk)	7.3	7.8	7.9	8.4	8.8	9.2	9.6	10.1	11
Ace Cook Co. Ltd.	5	5.4	5.4	5.8	5.9	6.3	6.8	7.2	7.6
Masan Group Corp	0.2	0.1	0.5	0.6	0.5	0.5	1.2	3	5.4
Royal Friesland Campina NV	-	-	-	-	-	-	-	5	4.7
Tuong An Vegetable Oil JSC	2.2	2.3	2.1	2.4	2.8	2.9	3	3.2	3.1
Abbott Laboratories Inc.	2.8	2.6	2.6	2.5	2.8	2.9	2.9	3	3.1
Kinh Do Corp	-	1.7	2	2.3	2.5	2.6	2.7	2.9	3.1
FFM Bhd	2	2	2.1	2.1	2.3	2.4	2.5	2.6	2.7
Ajinomoto Co. Inc.	1.3	1.4	1.7	1.7	1.6	1.7	1.9	2.5	2.6
Asia Food Industry Co. Ltd.	1.8	2	2.1	2.1	2.2	2.4	2.5	2.7	2.5
Kuok Oils & Grains Pte Ltd. (KOG)	2.2	2.7	2.6	2.6	2.5	2.3	2.2	2.2	2.3
VIFON - Vietnam Food Industries Joint Stock Co.	2.7	2.8	2.9	2.9	2.9	2.9	2.8	2.6	2.1
Mead Johnson Nutrition Co.	-	-	-	-	-	-	-	-	2
Nestlé SA	1.5	1.7	2	2.1	2.2	2.2	1.9	1.9	1.9
Golden Hope Group	1.2	1.2	1.4	1.3	1.5	1.7	1.8	1.7	1.6
Ve Wong Corp	1	1.1	1.2	1.3	1.3	1.3	1.2	1.3	1.3
Tan Binh Vegetable Oil JSC	1.6	1.5	1.6	1.8	1.8	1.9	1.8	1.7	1.2
Bien Hoa Confectionery Corp (Bibica)	0.7	1	1.1	1.2	1.2	1.2	1.2	1.2	1.1
Mars Inc.	0.2	0.2	0.1	0.2	0.2	0.2	0.2	1.1	1.1
Colusa Miliket Foodstuff JSC (COMIFOOD)	-	-	-	1.4	1.5	1.4	1.3	1.1	1
Others	66.6	62.7	60.9	57.7	55.7	54.5	52.7	43.2	38.6
Total	100	100	100	100	100	100	100	100	100

Source: Euromonitor, 2011



Main Players (continued)

Vietnam Dairy Products JSC (Vinamilk) is the leader of the packaged food market with 11% in 2009, and also controls 53% of the national dairy market. Vinamilk produces baby food, powder milk, drinking milk and ice cream and is an innovative leader, as reflected in its wide range of new products on the Vietnamese market such as pre/pro-biotic yogurts. The company is also expanding its distribution network in both domestic and export markets to increase sales. In 2009/2010, Vinamilk participated actively in merger and acquisition activities. The company bought out Lam Son Milk Co. Ltd. in May 2010 and F&N Vietnam Food Co. Ltd. in June 2010.

Acecook Co. Ltd. is the second largest producer of packaged food in Vietnam and the leader in noodle production, accounting for more than half of the national market. The company has constantly increased its market presence in the last decade and in 2009, controlled 7.6% of the Vietnamese packaged food market. The company also produces cooking oils, flavoured and instant noodles and sauces. Among its best known brands are *King Cook Best Cook* and *O!Racey* noodles. The company has a vast distribution network covering the entire country and is exporting its products to over 40 countries worldwide.

Masan Food Corp is the third largest packaged food company in Vietnam with a market share of 5.4% in 2009. The company was among the first local manufacturers to realize and target the growing consumer preference for branded products, focusing on building product quality and brand awareness. Besides having a strong brand portfolio, the company's strong nationwide distribution network is also an important factor which contributes to its large market coverage in both concentrated urban areas, and other regions such as suburban and rural areas. In 2009, the company's sales value accounted for a 27% share of total sales in the sauces, dressings and condiments segment, making it the category leader. Masan is also the third largest producer of noodles with a 12% value share.

Tuong An's had an overall packaged food value share of 3% in 2009. The company is the second biggest Vietnamese producer of oils and fats, its main products, with a value share of 21%. Tuong An has a wide distribution network throughout the country, covering different types of retailers from the modern, to the traditional. After a difficult year in 2008 due to the economic crisis and fluctuating input material costs, Tuong An's business results saw much improvement in 2009. Its net profit was up by over 150% as compared to the previous year.

Kinh Do Corp was ranked eighth in 2009, accounting for 3% of total value sales of packaged food in Vietnam. The company is the leader in the bakery sector with a 20% value share, and it has a diversified product range including economy, standard and premium products to respond to low, mid- and high-income consumers. Kinh Do Corp has also built a wide distribution channel from supermarkets/hypermarkets to independent small grocers in Vietnam in response to rising consumer demand. Its overall success is due to this wide distribution, as well as the company's high quality products at reasonable prices.

Bien Hoa Confectionery Corp accounted for a value share of 1% in the packaged food market in 2009, and is one of the leading companies in bakery products and confectionery such as biscuits, cookies, cakes, snacks, jelly, chocolate and instant cereals. The company's products are mostly focused on the low-medium price segments and its competitive position has improved in recent years despite economic difficulties. Bien Hoa reported strong growth in its net profit, which increased nearly 50% at the end of 2009 according to Euromonitor.

Royal Friesland Campina NV is a Netherlands-based multinational company that develops, produces and sells branded dairy products and fruit-based drinks. In Vietnam, the company had a value share of 4.7% in 2009, and is the fourth largest producer in the packaged food sector. Royal Friesland Campina's main products are ready-to-drink dairies (drinking yogurt and milk), powdered milk and sweetened condensed milk, with international brands such as *Dutch Lady*, *Frisco* and *Completa*. The products are distributed mostly in hypermarkets and supermarkets, but they are also available in traditional stores and markets.

Abbott Laboratories Inc. is an U.S.-based multinational pharmaceutical company that also produces meal replacements and nutritional supplements. The company had a value share of 3.1% in 2009, and is the sixth largest producer of packaged food in Vietnam. Abbott Laboratories Inc. is the leading producer of baby food (23% of the market in 2009) with international brands such as Gain, Similac and Grow. The products are distributed mostly in hypermarkets/supermarkets and grocery retailers, but are also available in traditional stores and markets.

Mead Johnson Nutrition Co. is a major U.S.-based manufacturer of infant and children's nutrition products such as *Enfamil* and *Enfalac*. In Vietnam, the company had a value share of 2% in 2009, and is one of the leading producers of baby food with a 14% value share, and is also an important producer of powdered and drinking milk.

Nestlé SA is one of the biggest food and nutrition companies worldwide and is based in Switzerland. In Vietnam, the company has a value share of 2% and offers a wide variety of packaged food products such as cereals, baby food, ice cream and confectionery. It has a value share of 9% for baby food and 7% for drinking milk products.

Market Formats

The remarkable growth experienced by the Vietnamese economy in the last decade has caused an increase in consumer spending power. At the same time, the packaged food market witnessed major changes, not just in terms of new products or packaging, but also the outlets where packaged foods are sold. There is a variety of market formats and distribution channels in Vietnam (Table 7).

Table 7: Sales of Packaged Food by Distribution Format

Share Analysis, as a % of Retail Value, 2005-2010						
	2005	2006	2007	2008	2009	2010
Store-Based Retailing	100	100	100	100	100	100
Grocery Retailers	95.1	94.9	94.8	94.8	94.8	94.8
Supermarkets/Hypermarkets	11.5	11.9	12.5	12.9	13.7	14.7
Discounters	-	-	-	-	-	-
Small Grocery Retailers	56.7	57.1	57.2	57.5	57.3	57
Convenience Stores	0.3	1.6	2.5	3.2	3.5	3.8
Independent Small Grocers	56.4	55.5	54.8	54.4	53.8	53.2
Forecourt Retailers	-	-	-	-	-	-
Other Grocery Retailers	27	25.9	25	24.4	23.7	23.1
Non-Grocery Retailers	4.9	5.1	5.2	5.2	5.2	5.2
Health and Beauty retailers	3.9	4.1	4.2	4	3.9	3.9
Other Non-Grocery retailers	0.9	1	1.1	1.1	1.3	1.3
Non-Store Retailing	-	-	-	-	-	-
Vending	-	-	-	-	-	-
Home shopping	-	-	-	-	-	-
Internet Retailing	-	-	-	-	-	-
Direct Selling	-	-	-	-	-	-
Total	100	100	100	100	100	100

Source: Euromonitor 2011



Hapro Mart supermarket in Hanoi, Vietnam.

Source: Planet Retail, 2011

Traditional markets are the most popular retail channel in Vietnam, especially in small towns and rural areas, but they are also widespread in big cities. Small grocery stores, independent retailers and wet markets make up the bulk of the outlets in the country and accounted for 89% of total sales value in 2010 (Euromonitor, 2011). However, the recent success of modern channels such as hypermarkets, supermarkets and speciality stores are threatening the supremacy of traditional retailing. There are a number of contributing factors to this trend such as western influence and increasing spending power. Many of the traditional outlets are facing food hygiene and safety issues, as they generally don't meet the required standards. However, traditional markets remain the preferred outlet for rural populations and older consumers.

Hypermarkets and superstores are a recent addition to the Vietnamese retail scene, and a number of international companies have entered the sector, such as Big C (part of France's Casino) and South Korea's Lotte Shopping. The largest local player in the channel is Saigon Co-op, which operates a chain of superstores. Most large stores are located in either Hanoi or Ho Chi Minh City. Joint venture agreements, such as the one between Singapore-based supermarket chain NTUC FairPrice and Vietnam's Saigon Union of Trade Co-operatives, are also beginning to operate. Hypermarkets and superstores accounted for almost 15% of packaged foods sales in 2010, an increase from 11.5% in 2005. An increasing segment of the population, especially young urban consumers, prefer these outlets which are safer and offer a better shopping experience. This trend is expected to continue in the future, especially in the big cities, fuelled by economic development and new foreign entrants. These modern retail outlets account for most of the sales in certain packaged food sectors such as frozen and chilled foods. (Planet Retail 2011)

Convenience stores are also becoming increasingly important in the Vietnamese market, with a packaged food sales share of almost 4% in 2010, up from 0.3% in 2005. This, combined with their large outlet numbers, indicates potential for the development of franchised convenience store chains. The market is dominated by G7mart which operates a vast network of outlets covering most of the country. Another local player, Hapro Mart, is expanding rapidly in the channel, with a network of relatively modern and attractive stores. According to Planet Retail, a number of global convenience store brands, such as 7-Eleven and Couche-Tard, are also planning to enter the Vietnamese market in the near future (2011).

Cash and carry, and warehouse clubs are still underdeveloped in Vietnam. The only notable presence is Germany's Metro Group. However, under current regulations, the company is not allowed to directly import commodities, which means that Metro needs to work with many local (and usually small) importers.



► SUPPLY CHAINS AND DISTRIBUTION

Companies' Distribution Systems

Packaged food is available in Vietnam through all distribution channels. Major packaged food producers generally rely on their own distribution systems, and their products are usually widely available from supermarkets/hypermarkets, to independent small grocers nationwide. Vinamilk, the packaged food market leader, has an extensive distribution system that covers more than 140 000 outlets in all cities and provinces. Masan controls a nationwide supply system with five distribution centres, 130 sole distributors and 120,000 retailers spreading over all cities and provinces in the country. While packaged food is coming to maturity in big cities, the supply networks are strong bases for companies to expand their coverage into smaller cities and rural areas, thus, generating sales growth and increased market penetration (Euromonitor, 2011). There are also buying groups such as G7, which is one of the central suppliers of independents. As well as operating stores under its own banner, it supplies around 10,000 other independents with products (Planet Retail, 2011).

Buying Groups

The need for an efficient distribution system encouraged the development of associations such as The Vietnam Distribution Associate Network Development and Investment Joint Stock Company (VDA). VDA was launched in 2007 and is owned by four leading local retailers, becoming the country's largest distributor. Saigon Co-op, Saigon Trading Group, Hapro and Phu Thai Group each own 25% of the company. VDA's first goals were to develop an efficient distribution infrastructure around the country, including warehouses, set up supply and export chains, and assist the stakeholders to expand their distribution systems. In the next stage, the company plans to build shopping malls and wholesale centres (Planet Retail, 2011).

Foreign Players

There is also an increasing presence of foreign players in the Vietnamese market. Recently, Singapore-based supermarket chain NTUC FairPrice has signed a joint venture agreement with Vietnam's Saigon Union of Trade Co-operatives to develop a hypermarket chain throughout the country, with the first outlet expected to open in 2012. Similarly, in November 2009, German company Metro launched a promotional program called "METRO small retailers," to help small retailers increase profits. At the same time, Metro Thang Long Hanoi opened a modern convenience store to introduce facilities and help streamline business. The group will also use a loan of US\$65.9 million from The European Investment Bank (EIB) to build five cash and carries in Vietnam. Additionally, the project will help to reinforce the E.U.'s presence in Vietnam and contribute to transferring technology from Europe to Vietnam. It will also assist the Metro cash and carries in Vietnam with new technologies to meet food safety and hygiene standards. According to Planet Retail, the U.K.-based grocery giant Tesco is also considering a market entry into Vietnam in the coming years (Planet Retail, 2011).

Wholesale

The large number of small mom-and-pop stores in Vietnam rely on a wholesale structure for their supplies. Local companies such as Saigon Union of Trading Cooperatives, Citimart, Hapro Mart, Fivimart, Intimex and Lotte Mart, have started to develop efficient wholesale systems. However, the market is still underdeveloped, offering business opportunities for wholesalers in Vietnam (Euromonitor, 2011).

► OPPORTUNITIES FOR CANADIAN EXPORTERS

As Vietnamese consumers are becoming increasingly aware of food safety issues, Canada's established and strict food safety standards can provide the reassurance of high quality products. As Vietnamese producers reform and improve their food safety practices, there is an opportunity for Canadian exporters to meet the increasing demand for safer food. Furthermore, as a result of income increases across much of Vietnam, spending habits are changing and consumers are becoming less price-sensitive. This shift gives Canadian exporters an opportunity to compete in terms of quality, rather than price. Since transportation and logistical costs for exporters remain high, competing on price in the Vietnamese packaged food market may still be difficult.

Prior to Vietnam's accession into the WTO in 2007, the government implemented a series of reforms that effectively opened the country's market to foreign investment, and allowed companies to run their own operations. Vietnam is a major market in Southeast Asia and is becoming increasingly competitive, making it more accessible to Canadian exporters.

Strong growth in the dairy products, pasta, oils and fats, cereals and baby food products could provide an opportunity for Canadian producers to secure a larger market share in the growing Vietnamese packaged food industry. Some products included in these high-growth sectors include cooking oil, butter, baby food, milk formula, dairies and meat products.



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The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

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